

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

UNITED STATES OF AMERICA,

Plaintiff,

v.

ALTON REAL ESTATE, INC.; EAST PEORIA
REAL ESTATE, INC.; JOLIET REAL ESTATE
HOLDING CO.; MOLINE REAL ESTATE, INC.;
PEORIA REAL ESTATE, INC.; SCHUETZ ROAD
REAL ESTATE, INC.; WOOD RIVER REAL
ESTATE HOLDING CO.; EDWARDSVILLE
REAL ESTATE, LLC; ELGIN REAL ESTATE,
LLC; INVERNESS REAL ESTATE, LLC;
NORTHBROOK REAL ESTATE, LLC;
ROCKFORD REAL ESTATE, LLC;
ST. CHARLES REAL ESTATE, LLC; CR
FINANCE II, LLC; BRAVO CARE OF ALTON,
INC.; BRAVO CARE OF EAST PEORIA, INC.;
BRAVO CARE OF EDWARDSVILLE, INC.;
BRAVO CARE OF ELGIN, INC.; BRAVO CARE
OF INVERNESS, INC.; BRAVO CARE OF
JOLIET, INC.; BRAVO CARE OF MOLINE,
INC.; BRAVO CARE OF NORTHBROOK, INC.;
BRAVO CARE OF PEORIA, INC.; BRAVO
CARE OF ROCKFORD, INC.; BRAVO CARE OF
ST. CHARLES, INC.; BRAVO CARE OF
ST. LOUIS, INC.; BRAVO CARE OF WOOD
RIVER, INC.; MIDWEST ADMINISTRATIVE
SERVICES, INC.,

Defendants.

Civil Action No.

DECLARATION OF JENNIFER S. BUHLMAN

Exhibit C: Buhlman Declaration

I, Jennifer S. Buhlman, pursuant to Section 1746 of Title 28 of the U.S. Code, declare under penalty of perjury that the following statements are true and correct to the best of my knowledge, information and belief.

1. I am over the age of 18 and make this Declaration in support of the United States' Emergency Motion for Appointment of Receiver and Memorandum in Support related to the Rosewood Facilities, which are comprised of thirteen healthcare facilities insured by the Federal Housing Administration ("FHA") that consist of twelve skilled nursing facilities and one assisted living facility located throughout Illinois and in St. Louis, Missouri.

2. I am a Credit Risk Officer in the Office of Residential Care Facilities ("ORCF") within HUD's Office of Housing for the United States Department of Housing and Urban Development ("HUD"). I have been employed by HUD in this capacity since August 2014, and was previously employed by HUD as a Senior Healthcare Financial Analyst beginning in July 2010.

3. I base this Declaration on documents I have reviewed, my education, and my personal and professional knowledge as a Credit Risk Officer in ORCF.

4. I have over 20 years of experience in the senior housing and care industry performing a broad range of financial analyses including building pro forma models for new development, deal structure cash flow waterfalls and portfolio acquisitions. I am familiar with senior housing and care industry and have knowledge of valuation methods regularly used in the industry through my experience and continued education and training courses taken regularly over the course of my career.

5. My primary responsibility as a Credit Risk Officer is to analyze high-risk proposals mainly for the Production Division within ORCF, including large individual loans

(refinances), new construction projects, and portfolios of multiple loans with same owners/operators totaling greater than \$90 million (concentration risk). I am also a member of ORCF's Loan Committee, which ensures consistent evaluation of projects and application of appropriate risk mitigation.

6. The Rosewood Facilities are owned by: Alton Real Estate Inc., East Peoria Real Estate Inc., Edwardsville Real Estate LLC, Elgin Real Estate LLC, Inverness Real Estate LLC, Joliet Real Estate Holding Co., Moline Real Estate, Inc., Northbrook Real Estate LLC, Peoria Real Estate Inc., Rockford Real Estate LLC, St. Charles Real Estate LLC, Schuetz Road Real Estate Inc., and Wood River Real Estate Holding Company (collectively, the "Owners").

7. The Rosewood Facilities are operated by: Bravo Care of Alton, Inc.; Bravo Care of East Peoria, Inc.; Bravo Care of Edwardsville, Inc.; Bravo Care of Elgin, Inc.; Bravo Care of Inverness, Inc.; Bravo Care of Joliet, Inc.; Bravo Care of Moline, Inc.; Bravo Care of Northbrook, Inc.; Bravo Care of Peoria, Inc.; Bravo Care of Rockford, Inc.; Bravo Care of St. Charles, Inc.; Bravo Care of St. Louis, Inc.; and Bravo Care of Wood River, Inc. (collectively, the "Operators").

8. I receive financial information from FHA lenders concerning FHA-insured projects in my regular course of business as a Credit Risk Officer in ORCF, which includes, but is not limited to, receiving historic and forecasted cash flows, as well as data on comparable transactions.

9. As part of my duties as a Credit Risk Officer in ORCF, I was tasked with analyzing and determining the value of the Rosewood Facilities. In performing this analysis, I reviewed the following documents:

- a. Forecasted cash flows provided by Greystone Servicing Corporation, Inc. (“Greystone”), the former FHA lender for the Rosewood Facilities; and
- b. The underlying assumptions on census mix (an analysis of sources of receivables), revenue projections, staffing, and operating expenses contained in the forecasted cash flows.

10. Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs (“EBITDAR”) is a standard industry metric used in calculating the financial performance of long-term care facilities.

11. The standard industry practice in valuing long-term care facilities is to divide EBITDAR by an industry standard capitalization rate. The capitalization rate consists of the net operating income (or EBITDAR) divided by the purchase price for publicly announced transactions that closed during the past year, which shows the potential rate of return on the real estate investment.

12. I reviewed the data contained in the Senior Care Acquisition Report,¹ which is an industry publication that contains, amongst other things, data metrics and analyses of each year’s senior care mergers and acquisitions, data on publicly announced transactions, and analysis of those transactions, which in the aggregate the resulted in a 13% capitalization rate currently recognized in the senior healthcare industry.

13. In addition to dividing the Rosewood Facilities’ EBITDAR of \$16,594,236 by the capitalization rate, I applied a 25-30% discount due to the operational uncertainties at the Rosewood Facilities related to the Owners’ failure to make mortgage payments in over two years, the Owners’ and/or Operators’ failure to maintain relationships with vendors, and future

¹ *The Senior Care Acquisition Report*, (23rd ed. 2018).

purchasers likely concerns related to uncertainties regarding Medicare and Medicaid payments, and I arrived at an estimated value of approximately \$90,000,000 to \$95,000,000.

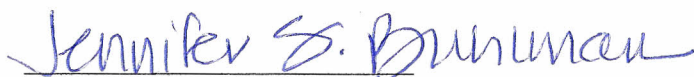
14. Another metric commonly used to value nursing home facilities is by applying a per-bed value from recent sales to the total number of beds in a facility whose value one is seeking to estimate.

15. I obtained a value per bed from sales of nursing home portfolios between May 2017 and May 2018 in the State of Illinois from data provided by Greystone, and multiplied the average by the total number of Rosewood Facilities beds. The average price per bed of \$56,200 (five transactions ranging from \$31,000 to \$93,000) multiplied by 1,662 beds results in a potential value of \$93,404,400, which is consistent with the previous estimate.

16. As of August 14, 2018, the outstanding principal balance on the mortgages for the thirteen Rosewood Facilities is \$146,655,782.44.

17. HUD's financial obligations as insurer of the mortgages therefore exceed the value of the Rosewood Facilities by approximately \$55,000,000 to \$60,000,000.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.


Jennifer S. Buhlman
August 15, 2018